Outcomes Based IT Services Contracts: Viability and Success Through Partnership

Traditional measures of successful service delivery fall short when building a client-provider relationship whose success is judged by its outcomes. Focus must shift away from what is readily quantified and easily tracked to what is relevant, even if lacking in precision. Client and provider goals must be synergistically aligned so that their mutual attainment improves the viability of both enterprises. The successful outcomes-based IT services relationship will be characterized by a seamless client-provider community focused on customer results, cemented by direct customer, client, and provider interaction.

IT sourcing is no longer about the simple cost-driven labor arbitrage and piece-work savings paradigms launched a quarter century ago. Nor is the notion of transformational outsourcing—now more than two decades in the making—a recent construct. Yet, driving and maximizing business value as measured by business outcomes remains for many organizations an elusive holy grail of outsourced IT services delivery.

At its most basic level, the IT services outsourcing contract is caught in a tension of conflicting financial objectives: clients seek to maximize services while minimizing costs, thereby generating savings; providers seek to minimize services in order to minimize costs further, thereby generating their profit margin. Negotiations often move away from the outcome as instantiated in business process execution or end user customer experience and focus, instead, on satisfying the success metrics to which each party's management are beholden. Negotiations jettison substance, replaced by a ballet of the unsustainable: front-loaded savings for the client justified (paid for) on the basis of unrealistic future business growth or additional efficiencies for the provider. When the client fails to deliver these knowingly optimistic but contractually-committed opportunities, the relationship disintegrates.

How then, to define and manage a sustainable, successful outsourcing relationship? Part of the answer is a more robust hand-off. Best practices now include Operation Level Agreements (OLAs) with embedded RACI spell out charts and hand-off activity swim lanes, and component and end-to-end Service Level Agreements (SLAs). Key Performance Indicators (KPIs) and scorecards measure and document turnover progress and service success or failure.

But the KPIs and scorecards approach is still more of the same: more process, more metrics, more quantification, more surrogates for service performance. KPIs are often only expanded Service Level Objectives (SLOs)—potentially useful quantifications which require deeper investigation if they are to inform our understanding of how well an outsourcing relationship is delivering on its promises.

Primary factors influencing the choice of metrics are accuracy, unambiguity, repeatability, and familiarity. The suite of SLOs and KPIs included in a contract is typified by the question, “What can we state with certainty?” However, there is no direct measure for the viability of a product or service; therefore it must be judged through its manifestations—outcomes—taking care to select relevant measurement candidates across multiple dimensions to holistically represent the whole. Relevance should be the key criterion for selecting a measurement, even if only an approximation.

Measurements need not be voluminous or complex (costly to produce) or even objective. Collective subjectivity is objectivity if it encompasses a sufficient variety of value systems. For example, customer satisfaction surveys are valid given sufficient sample size and diversity; moreover, because surveys solicit feedback at the point of services consumption, they provide an objective outcomes-based representation of service and therefore provider performance.

The challenge is incorporating outcomes into an IT services contract. An outsourcing contract typically consists of four basic parts: Scope of Work, Deliverables, Terms and Conditions, and SLA. Significant effort is expended haggling over contingencies for things which will never happen. Meanwhile, discussion of the service to be delivered often commences and concludes via a standard provider template introduced with, “We use this with all our customers” and the caveat that deviations raise the price.

Given the financial tension inherent in outsourcing relationships, the first hurdle is for both parties to be clear and open with one another on their internal success metrics and objectives and for the client to be direct about the actual health of activities being outsourced. Selecting a top-tier provider will not inherently drive client adoption of improved business practices. There are no SLAs for shortcuts to process maturity.

Nonetheless, there is a wide gap between standard SLAs and their potential. SLAs typically focus on basics such as quality via defect measurement, availability via up/downtime, service via time to respond/resolve. We advocate viewing and constructing SLAs based on viability—the foundation of positive outcomes—and its associated systems processes of throughput, synergy, and latency.

- **Throughput**—most closely aligned to the traditional SLA; effectiveness measures (examples) include: cycle time (Agile development, time to rack and stack), effective use of assets (reusable libraries, virtual machine optimization), and competence (defect re-injection in applications coding, availability in infrastructure)
- **Synergy**—client-supplier cultural alignment: insure compatibility of the internal success metrics mentioned at the outset, promote credibility by including and enforcing good governance practice; eliminate supply chain misalignment (e.g., provider policy is to pay support invoices within 90 days of receipt while the software provider assesses overdue penalties after 30 days and revokes license operation/subscription after 60 days), define and track added value specific to the relationship (often related to the other two, includes subjective measurements such as customer satisfaction as compared to a prior-to-outsourcing baseline)
- **Latency**—ramp-up: time from issue or functional requirement identification to problem definition and design solution, committed bench strength available for new and time-critical initiatives, shadowing of named critical resources to minimize knowledge transfer requirements in the event of a personnel change (also an example of added value)

Appropriate metrics may be defined, quantified and aligned, and targets and trend expectations set following this viability oriented approach.

In addition to the need to establish relevant measurements, can we identify any other factors or themes essential to client-provider success?

Outsourcing is a relationship serving two masters. The primary function of an outcomes-based contract is to align and connect objectives to positive business results for both parties—mutual viability.

Metrics drive management behavior. The most robust provider governance structure will fail if its parties are working at crossed purposes. Success measures must be transparent, and that transparency used to insure all those measures align positively; governance then tracks and reports on team performance. Governance also exercises active oversight insuring each party practices due diligence internally. For example, major enhancement requests submitted to the client's portfolio/relationship manager should include business cases to avoid scenarios such as putting through a $500K enhancement request to a bespoke, non-strategic, product generating $200K in revenue annually.

Conversely, the provider's service delivery manager must be empowered to push back on requests to cut corners to do $100K of work for half the price because that is all the client's customer is willing to pay. In either case, if a particular product is a loss leader, then the client bears that financial responsibility. Outsourcing is not a license to saddle providers with bad business.

Staff is largely motivated through less tangible means: sense of accomplishment performing meaningful work, demonstrated appreciation, management listening to and acting on concerns and suggestions, and a positive and tangible sense of community. In the successful outcomes-based relationship, the client shares this responsibility for management-staff engagement and well-being with the provider.

It is essential that there be a direct line of engagement between the client and provider staff. "70% of engaged employees indicate they have a good understanding of how to meet customer needs, while only 17% of non-engaged employees say the same" (Right Management, survey). In the outcomes-based services relationship, this speaks to provider staff understanding being aligned to both the client's and client customers' needs. Establishing and maintaining the necessary level of staff engagement requires full-body contact between client and provider: strategy sharing between CEOs; management and key staff visiting each other's sites; co-branding internal teams; exposing provider management and staff directly to client customers and engaging them in the client's customer survey process; and ultimately sharing responsibility for business results.

Vendor hype is that outcomes based IT services will evolve over the next several years to the provider having complete ownership of delivery (fully managed services). Examining such contentions more closely reveals only a different pricing model for the traditional outsourcing of commodity skills and activities: standardized, repeatable, decomposable, responsive to economies of scale and process improvement. In this new model, the vendor receives a cut in the action in exchange for more control over the delivery process, that is, compartmentalizing and segregating work into a black box—reducing, not enhancing, client-provider interaction. This is a tactical approach at best, lacking ambition and imagination. Instead, we envision outcomes-based IT service contracts and relationships built on strategic client-provider symbioses: partnerships interconnecting client, provider, and customer built on shared and aligned goals creating successful business outcomes.